

Message Text

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ACTION AGR-01

INFO OCT-01 EUR-12 ISO-00 EB-08 AF-10 ARA-10 EA-10
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R 291321Z JUN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7669

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PASS ELECTRONICALLY AGRICULTURE/FAS FOR SAYLOR AND
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E.O. 11652: N/A
TAGS: EAGR
SUBJECT: WHEAT PRODUCERS DISCUSS NEW WHEAT AGREEMENT

1. WHEAT PRODUCER REPRESENTATIVES FROM ARGENTINA, AUSTRALIA, CANADA AND U.S. JOINED BY RESPECTIVE GOVERNMENT REPS MET INFORMALLY JUNE 23-24 TO ASSESS PROGRESS OF ON-GOING INTERIM COMMITTEE WORK WITH RESPECT TO POSSIBLE NEW INTERNATIONAL WHEAT AGREEMENT. GOVERNMENT REPS WERE PRESENT IN OBSERVER STATUS AND PARTICIPATED ONLY AS REQUESTED BY PRODUCERS FOR SPECIFIC INFORMATION RELATING TO CURRENT TALKS.

2. ISSUES ADDRESSED INCLUDED PRICE LEVELS, EFFECTIVENESS OF STOCKING MECHANISM, ADDITIONAL MEASURES, SUBSIDIES AND POSSIBLE FUTURE OPTIONS IN LIEU OF NEW AGREEMENT.

3. ATTENTION TO PRICE LEVELS DOMINATED THE MEETING. WHILE IT WAS AGREED THAT "NOTIONAL PRICES" SHOULD BE DISCARDED, PARTICIPANTS WERE RELUCTANT TO OUTLINE ALTERNATIVE DEFINITIONS FOR OUTER PRICE POINTS. WITH
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THE EXCEPTION OF THE U.S. THE GROUP IMPLIED HOWEVER THAT THE ESTABLISHMENT OF A FAIRLY RIGID FLOOR PRICE WOULD BE ACCEPTABLE IF NOT DESIRABLE. THE U.S. LOAN RATE WAS VIEWED BY OTHER EXPORTER PRODUCERS AS THE SOLE AVAILABLE DEVICE FOR GENERAL DEFENSE OF THE MARKET FLOOR WHICH IF SUPPLEMENTED BY "SALES PRACTICES" ON PART OF ALL MAJOR EXPORTERS WOULD SERVE AS BASIS FOR ESTABLISHING FAIRLY

SPECIFIC FINAL FALLING PRICE POINT. ONE PARTICULAR
"SALES PRACTICE" IT WAS SUGGESTED BY AUSTRALIA AND
CANADA MIGHT BE PRE-AGREED DISCIPLINE ON "MARKET SHARES".
CANADA AND AUSTRALIA ALSO URGED U.S. LOAN RATE INCREASE
TO \$3.25 PER BUSHEL.

4. JOINTLY DISCUSSED BUT NEVER FORMALLY AGREED INDICA-
TIVE PRICE SCALE EXPRESSED IN BASKET EQUIVALENT PER TON
AS FOLLOWS: THIRD FALLING PRICE POINT - \$145;
ACQUISITION - \$155; MID-POINT - \$190; RELEASE - \$230;
THIRD RISING PRICE POINT - \$240. U.S. PRODUCERS' REP
(WOODWARD) TABLED INDEPENDENT VIEW: THIRD FALLING -
\$140; ACQUISITION - \$155; RELEASE - \$205; THIRD
RISING - \$220. (THIRD RISING AND FALLING POINTS ARE
CONSIDERED MARKET EXTREMES IN THIS CONTEXT.)

5. CONSENSUS WAS ACHIEVED WITH RESPECT TO THIRD FALLING
POINT AT \$140-\$145 AND STOCK ACQUISITION AT \$155.
AGREEMENT ON RISING PRICE POINT HOWEVER WAS NOT REACHED,
PRIMARILY DUE TO AUSTRALIAN CONCERN (LES PRICE, CHAIRMAN
OF A.W.B.) THAT \$230 RELEASE PRICE WOULD ENCOURAGE
UNECONOMIC PRODUCTION IN IMPORTING COUNTRIES.

6. MORE SIGNIFICANTLY, PRICE ARGUED THAT HIGH
RELEASE LEVEL WOULD CONDEMN AUSTRALIA'S NATIONALLY HELD
I.W.A. RESERVE TO A STATUS OF PERMANENCE WITH VIRTUALLY
NO CHANCE OF RELEASE. IN HIS VIEW, THE EFFECTIVENESS
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OF THE STOCKING MECHANISM WOULD BE LIMITED TO PRICE INFLUENCES AT INITIAL ACCUMULATION AND THEREAFTER, IN THE ABSENCE OF FURTHER STOCKING AND DE-STOCKING, MARKET IMPACT WOULD BE NIL. PRODUCERS AGREED THAT LACK OF PAST EXPERIENCE MADE JUDGEMENT OF RESERVE STOCK EFFECTIVENESS DIFFICULT. U.S. REP (WOODWARD) COMMENTED THAT U.S. FARMER HELD RESERVE WHILE NOT ENTIRELY ANALOGOUS WAS NEVERTHELESS EXAMPLE OF FAVORABLE PRICE IMPACT AS RESULT OF "LOCKING AWAY" STOCKS FROM THE MARKET. PRICE COMMENTED FURTHER THAT TODAY'S MARKET WAS VIEWED AS FAVORABLE BY AUSTRALIAN PRODUCERS AND REMINDED OTHER REPS THAT COST OF PRODUCTION FOR AUSTRALIAN WHEAT WAS ABOUT 50 CENTS PER BUSHEL LESS THAN IN U.S.

7. ADDITIONAL MEASURES WERE CONSIDERED TO BE "PRETTY THIN". CONCERNING PRODUCTION POLICIES LES PRICE COMMENTED THAT UNILATERAL PRODUCTION POLICIES BY THE U.S. FOR THE PERIOD 1972-1977, I.E., ENCOURAGEMENT OF FULL PRODUCTION WAS PRIMARY CAUSE OF EARLY SEASON MARKET LOWS. HE ADDED THAT AUSTRALIA'S PARTICIPATION IN A PRODUCTION ADJUSTMENT PROGRAM WOULD CONTRIBUTE LITTLE TO OVERALL GLOBAL SUPPLY SHIFTS AND WOULD BE UNPOPULAR WITH LIMITED OFFICIAL USE

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AUSTRALIAN PRODUCERS.

8. DISCUSSION OF "SUBSIDIES" WAS LIMITED TO LES PRICE'S WARNING THAT ANY "SUBSIDIES" PROVISION IN NEW I.W.A. WOULD HAVE TO TAKE INTO ACCOUNT ONE DOLLAR PER BUSHEL SUBSIDY BY U.S., AS RESULT U.S. INCOME SUPPLEMENT BASED ON TARGET PRICE.

9. IT WAS DECIDED THAT COMMITTEE WOULD RECONVENE DURING SEPTEMBER NEGOTIATING CONFERENCE, DATE TO BE FIXED AFTER FURTHER CONSULTATIONS. MEETING CONCLUDED WITH COMMENT BY PRICE THAT FAILURE TO NEGOTIATE NEW AGREEMENT SHOULD NOT MEAN A RETURN TO EXISTING SITUATION. VERY DIRECTLY, PRICE INSISTED THAT MAJOR EXPORTERS MUST BAND TOGETHER IN ORDER TO "SHORE OURSELVES BEYOND WHERE WE WERE BEFORE THE NEGOTIATIONS BEGAN".

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